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Union Calendar No. 902

96th Congress, 2d Session

House Report No. 96-1531

U.S. POSTAL SERVICE PLAN FOR THE
NINE-DIGIT ZIP CODE

COMPLETED

THIRTIETH REPORT
BY THE
COMMITTEE ON GOVERNMENT
OPERATIONS



DECEMBER 10, 1980.—Committed to the Committee of the Whole House on the
State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, D.C., December 10, 1980.

HON. THOMAS P. O'NEILL, JR.,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: By direction of the Committee on Government Operations, I submit herewith the committee's thirtieth report to the 96th Congress. The committee's report is based on a study made by its Government Information and Individual Rights Subcommittee.

JACK BROOKS, *Chairman.*

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Union Calendar No. 902

96TH CONGRESS }
2d Session }

HOUSE OF REPRESENTATIVES

{ REPORT
No. 96-1531

U.S. POSTAL SERVICE PLAN FOR THE NINE-DIGIT ZIP CODE

DECEMBER 10, 1980.—Committed to the Committee of the Whole House on
the State of the Union and ordered to be printed

Mr. Brooks, from the Committee on Government Operations,
submitted the following

THIRTIETH REPORT

BASED ON A STUDY BY THE GOVERNMENT INFORMATION AND INDIVIDUAL
RIGHTS SUBCOMMITTEE

On December 2, 1980, the Committee on Government Operations approved and adopted a report entitled "U.S. Postal Service Plan for the Nine-Digit Code." The Chairman was directed to transmit a copy to the Speaker of the House.

I. INTRODUCTION

"Preposterous and ridiculous" was the characterization given the Postal Service's planned 9-digit ZIP Code¹ by Ray Geiger, editor of the *Farmers' Almanac*. In Geiger's view, the new coding will cause people unnecessary "pain and aggravation" and will drive them "digit dizzy."²

Many people who wrote to the Subcommittee on Government Information and Individual Rights about the planned ZIP expansion shared this view. So did others who responded to a notice in the *Federal Register*³ that the new ZIP codes would go into effect February 1, 1981. For example, a secretary wrote to the Postal Service that she would not be able to remember nine digits at a glance while typing. She further commented:

¹ Testimony and documents referred to herein are printed in "U.S. Postal Service Plan for Nine-Digit ZIP Code": Hearings before a Subcommittee of the Committee on Government Operations, House of Representatives, 96th Congress, 2nd Session (Sept. 17, 1980) [hereinafter cited as "Hearings"] (to be printed).

² Hearings (Statement of Ray Geiger, Editor, *Farmers' Almanac*, Lewiston, Maine).

³ 45 Fed. Reg. 3751-3757 (June 3, 1980).

The nine digits also provide a greater chance for error, and unless it speeds up mail delivery by at the very least one day, it is not worth the extra time required of those of us in the secretarial field.⁴

The Postal Service has conceded that the new ZIP Codes will not hasten mail delivery but that, nevertheless, all will be done to convince mail customers to use the additional digits.

Many people have told the subcommittee that the ZIP Code expansion will spell enormous disaster. They foresee firms having to convert mailing lists at great expense and the Postal Service receiving little return on a huge investment, which the expanded ZIP Codes will require.

How did this come about?

During August 1976, a United States Postal Service Task Force on Future Mail Processing Systems concluded that:

In view of the unacceptable trends in rising mail processing costs, loss of business, and threat of competition, it is recommended that the automated mail processing system and ZIP Code changes identified in this report be adopted by USPS management. It is further recommended that capital expenditures required be authorized and that a specific implementing organization be established to carry out this program.⁵

Two years later, Postmaster General William F. Bolger announced at a National Postal Forum that the Postal Service intended to expand ZIP Codes during 1981.⁶ The first formal notice of this proposal appeared in the Federal Register of June 3, 1980, and announced that:

During this initial phase of the implementation of the nine-digit ZIP Code system, the Postal Service will assign a nine-digit ZIP Code number to every address in the United States and encourage all mailers to begin using these expanded ZIP Codes. During the next several years, the Postal Service plans to purchase and install advanced mechanization equipment which will be able to "read" the nine-digit ZIP Code on mail, identify each mail piece by its nine-digit ZIP Code and direct the mail to the delivery route of the address. It is anticipated that this new mechanized sortation system, when fully operational, will assist the Postal Service in continuing to provide good and efficient services at fair and reasonable rates, by allowing mail to be processed with increased economy and accuracy.

As soon as the new nine-digit ZIP Codes are assigned, all postal customers will be encouraged to begin using them on a voluntary basis. Use of the expanded ZIP Code may be required in the future on some or all of that type mail which presently is required to bear the five-digit ZIP Code.⁷

⁴ Letter from Ann Sitton, Executive Secretary, Cystic Fibrosis Foundation, to Director, Office of ZIP Code Expansion, Postal Service (July 1, 1980).

⁵ U.S. Postal Service, "Task Force Report on Future Mail Processing Systems," 4 (August 1976), printed as appendix 6.d. in Hearings.

⁶ Remarks of Postmaster General Bolger before National Postal Forum XII (Sept., 1978).

⁷ 45 Fed. Reg. 3751-3757 (June 3, 1980).

It was the public response to this notice that prompted the Subcommittee on Government Information and Individual Rights to examine the Postal Service's plan. The responses pointed out that the Postal Service had not adequately addressed many important issues or was not adequately informing the public.

For example, some people asked for clarification on whether the program would be voluntary or mandatory, whether incentives like those currently offered mailers for presorting would be available, whether the nine-digit program would replace presort programs that volume mailers use, whether the Postal Service had considered the complexities and costs for the private sector to expand the ZIP Code on computerized and manual mailing lists, how much the Postal Service would pay for new equipment and how it would finance the purchases, what savings the Service expected, and whether the new equipment would perform up to standard.

To explore these concerns, the subcommittee on September 17, 1980, heard testimony from, among other witnesses: Michael S. Coughlin, Assistant Postmaster General, Mail Processing Department, U.S. Postal Service; Sal Genarro, Director, Office of ZIP Code Expansion, U.S. Postal Service; Ray Geiger, Editor, *Farmers' Almanac*, Lewiston Maine; Joyce Greenberg, Greenberg Smoked Turkey Company, Tyler, Texas; Forest Montgomery, Counsel, National Association of Evangelicals, Washington, D.C.; Roger Werhle, Director of Auxiliary Enterprises, Georgia Institute of Technology, Atlanta, Georgia; Lewis Goldfarb, Assistant Director for Credit Practice, Federal Trade Commission; Jon Mulford, Doubleday & Co., Garden City, N.Y.; and Stephen A. Gold, Deputy General Counsel, Postal Rate Commission.

II. SUMMARY

The Postal Service plans to spend close to a billion dollars for equipment to implement its nine-digit ZIP expansion program. The program really represents two distinct proposals, each of which might well stand on its own. These two proposals are: (1) introducing additional automation and mechanization into the current mail sorting process; and (2) dividing the country into some 20 million ZIP Code areas (there are currently 40,000) so that mail can be sorted into smaller units before being presented to the letter carrier.

While the Postal Service claims that its ZIP Code expansion plan has the potential of saving the Postal Service \$500 million per year in labor costs associated with the sorting of mail, it has provided little to the public in support of these claims. What information it has provided has often been either highly speculative or contradictory. For example, the potential savings are premised on: a 50 percent acceptance of the expanded code by 1982 and a 90 percent usage by 1986; full deployment of the billion dollars' worth of equipment. The assumed levels of use of the nine-digit code seem unrealistic in light of the reservations expressed by the business community concerning the cost of changing from five to nine digits. Moreover, the Postal Service itself is hedging on full deployment of the new equipment, contingent upon the experience gained during the period 1981-1983.

Another factor that would affect any short-term benefits that might be derived from the Postal Service proposal is the cost of financing the new equipment. Information on this matter has not only been unavailable to the public but, apparently, was not even available to the Board of Governors of the Postal Service a meager three months before implementation of the plan was to begin. In any event, whatever means are employed to finance the procurement of new equipment, it is likely that the cost of the Postal Service investment will be borne equally by the entire mailing public.

This change may cost the mailing public in the neighborhood of a billion dollars. Although this figure, while based on estimates provided the subcommittee by a variety of business, government and non-profit organizations, is speculative, it is the best estimate available since the Postal Service chose not to examine the cost to mailers to change their files to the new code.⁸ An analysis of these costs, promised the subcommittee at its hearing by the year's end, will apparently not be available to either the Congress or the Postal Service prior to the Board's final decision on the ZIP Code expansion plan.⁹

⁸ Hearings (Statement of Assistant Postmaster General Michael S. Coughlin).

⁹ On November 28, 1980, the U.S. Postal Service issued a notice of proposed rulemaking for its ZIP Code expansion plan (45 Fed. Reg. 79104). The notice includes responses to earlier comments received by the Postal Service and a draft regulatory analysis statement. The notice, which appeared after the Subcommittee on Government Information and Individual Rights had approved this report for consideration by the Committee on Government Operations, contains little, if any, information not previously available to the subcommittee. Moreover, the nature of the information contained in the notice tends to reinforce the Committee's conclusion that the Postal Service is providing incomplete and often times contradictory information concerning its plan.

For example, previous public comments are characterized at one point in the notice as being equally divided between supporters and opponents. However, a review of these comments, printed as an appendix to the Hearings, shows few, if any, in support of the Postal Service plan as currently formulated.

While the regulatory or economic impact analysis purports to outline potential costs of and alternatives to the plan, it is deficient in many respects. The cost analysis includes no estimate of conversion costs for either small businesses or for the various levels of government. The total conversion figure offered for major mailers, "somewhere between \$40 and \$90 million," totally ignores specific cost estimates provided to both the Postal Service and the Congress by businesses. Further, the discussion of the cost to major mailers also states that the Postal Service "think(s) it more likely that half of these mailers would convert their files during the first year after implementation of the proposed system." This prospect is, at best, highly speculative, since the prevailing view among businessmen is that any decision to convert will depend, at least in part, on the size of as yet unknown incentive discounts.

The notice also indicates that, beyond the almost \$1 billion for new equipment, the Postal Service will spend \$24 million "to notify customers of their new ZIP Code, to plan (but not operate) . . . a telephone inquiry system . . . and to pay for public service advertising. . . ." Three days before the notice appeared in the Federal Register, Postmaster General Folger said, in testimony before a subcommittee of the Senate Government Affairs Committee, that the cost for these items would be \$30 million. He also told the Senate subcommittee that new automated equipment would be deployed beginning in October of 1981. In the notice and in earlier testimony before the Subcommittee on Government Information and Individual Rights, the Postal Service listed a July 1981 deployment date.

Finally, the notice outlines the five options to the mail processing system said to have been considered and rejected by the Postal Service. These are: continue the present system; require mandatory use of the expanded ZIP Code; pursue the proposed Postal Service plan without incentives; deploy OCR and BCR equipment for use with the present five-digit ZIP Code; or, encourage mailers to print bar codes on outgoing mail. Missing from the list of options are several alternatives, including the pursuit of programs in tandem. Moreover, the discussions following the options are one dimensional and fail to take into account the many variables that would lead to the best choice. For example, although acceptance and use of the expanded ZIP Code may be the most important variable in determining potential return on investment it does not exist in a vacuum. Other variables, as an increase in the volume of presorted mail or the failure of mailers to comply fully with Postal Service addressing requirements for OCR readability, could result in a substantial volume of mail being diverted from the automated sorting process. Most fatal, the notice contains no thorough cost-benefit analysis of the option toward which the Postal Service is clearly predisposed, involving automation and ZIP elongation.

Since the Postal Service is basing the success of its plan on the voluntary acceptance and compliance of business mailers, whose mail accounts for 80 percent of the total mail volume, it should have been making an all-out effort to persuade these mailers to adopt the new code. Yet by the Postmaster General's own admission, mailers have not yet been able "to obtain and digest [the] substantial body of information concerning the nine-digit code program" necessary to measure their reactions to potential discounts and eligibility requirements.¹⁰

As it stands, many business mailers, both large and small, are reluctant to invest large sums of money to expand their mailing lists to handle the 9-digit ZIP until they know what incentives will be offered and how the new system will mesh with the current presort arrangements. The answer to the first of these questions awaits a request by the USPS for a ruling by the Postal Rate Commission. The answer to the second will probably not be known until the ZIP expansion is operational.

While the Postal Service completed its testing of the optical character readers to be used in processing the 9-digit mail several months ago, it has provided little information concerning the reliability of these machines even though this was specifically requested by the subcommittee. The only information made available to the subcommittee on the performance of the five OCRs tested was from the briefing document postal officials prepared for the Board of Governors. This document indicated an OCR read rate of from 60 percent to 80 percent depending on the type of mail fed into the machine.

The Committee is also concerned about the Postal Service's apparent failure to give serious attention to alternative ways of improving economy and efficiency in the mail sorting process. Since there appears to be a number of less costly ways that this might be accomplished—such as providing incentives to business mailers to imprint special bar coding on billing and reply mail, or using the new equipment to sort five digitated mail, to name but two—the Postal Service would have been well-advised to consider them. Moreover, since the real target of the extra sorting numbers is large business mailers and not the general public, the Postal Service should be concentrating all its efforts towards this market. Instead, it plans to promote the proposal so as to gain acceptance by the total mailing public. In doing this, it runs the risk of losing the support of the general public before it gains the acceptance of the business community, an acceptance crucial to the plan's success.

Finally, while senior Postal officials may well have been involved in monitoring and developing the ZIP Code expansion plan, the Committee could find no audit trail of decision-making to indicate the involvement, if any, of these officials. Neither could it find evidence that the Board of Governors had been involved early-on in the decision-making. In view of the Service's description of the plan as being of paramount importance to the future efficiency of the mail system, it

¹⁰ Letter from Postmaster General Bolger to Representative Richardson Preyer, Chairman, Subcommittee on Government Information and Individual Rights (September 29, 1980), printed as appendix 1.b. in Hearings [hereinafter cited as "Bolger letter, September 29, 1980"].

is disturbing that the matter never appeared as an agenda item for consideration by the Board and that, when discussed by the Board, no minutes were made of the discussions.

III. FINDINGS

The committee is concerned that as currently constituted, the Postal Service's planned expansion of the ZIP Code to nine digits could become a colossal failure. It is an idea in search of a plan.

Specifically, the committee finds that:

EQUIPMENT

The Postal Service has no clear idea of how much mail its planned Optical Character Readers (OCRs) could process.

Neither does the Postal Service know how many employees it will lay off because of new equipment.

Inflation and slow contracting will likely push the Postal Service's estimates for equipment to process the new ZIPs even higher than the current \$900 million figure.

The Postal Service refuses to provide details on tests of the OCRs that it plans to buy.

The Postal Service could use OCRs today to handle 5-digit mail.

THE PROGRAM

Getting under way

The Postal Service has failed to fully explore alternatives to its ZIP elongation plan and has failed to devise a time-phased implementation plan with specific decision checkpoints.

The Postal Service's expectation that half of all letters will bear the expanded ZIP Code by 1982 and 90 percent by 1986 appears overly optimistic and unrealistic as a basis for planning.

The Postal Service's plan for a nationwide telephone number seems an awkward vehicle by which citizens are to obtain ZIP Code information and sure to raise frustration levels.

The Postal Service picked the wrong time to expand the ZIPs, if only because the public will be reluctant to accept such an inconvenience on the heels of a planned rate increase for first-class mail.

Costs

Although legally correct, the Postal Service errs in saying that it need not comply with Executive Order 12044's requirement for an inflationary statement about a proposal that will significantly increase costs for individual industries and levels of government. The Executive Order requires such a regulatory analysis for all regulations that will have an annual effect on the economy of \$100 million or more. The 9-digit ZIP Code will cost mailers hundreds of millions.

Government agencies at the federal, state and local levels have little or no precise knowledge of how the 9-digit code will affect them financially or otherwise.

Mail users are being pressured into taking the initial risk of whether the expanded ZIP Codes will work by being asked to convert mailing

lists at some expense while the Postal Service hedges on full deployment of the initial equipment that it says it needs for the program.

Questions

The Postal Service has failed to address such questions as:

(a) Why should it give a discount for presorting if it has machines that can do the work more efficiently?

(b) Will discounts for presenting to the third and fifth digits be worth it to the Postal Service after new machinery is in place? and as a result has left mailers confused about whether they should cooperate with the new program.

In fact, under a case that the Postal Rate Commission has before it, mailers would probably fare better by presorting rather than changing their address lists to nine digits.

The expanded ZIP Code will be no less mandatory than the current 5-digit code as long as the Postal Service puts uncoded mail in a special bin and processes it later.

Lack of information

The Postal Service has failed to inform the public about incentives to encourage mailers to use 9-digit ZIP Codes and, as a result, finds itself in a dilemma: it cannot make its case to the Postal Rate Commission for discount incentives until it has some idea of how many mailers will use the 9-digit coding, but mailers are reluctant to expand their systems to accommodate the nine digits until they know what the discounts will be.

The Postal Service has evidently given no thought to how it will notify new residents of their ZIP Codes after an initial mass notification next year.

Lack of direction

The plan to expand ZIP Codes suffers for lack of an overall project director.

The plan also lacks a history of decisionmaking by top postal officials.

The Committee on Government Operations is concerned following the Board of Governors' December 2, 1980 approval of the capital investment for optical character readers and associated equipment, that the 9-digit ZIP Code will become a reality more as a result of bureaucratic initiative by the Postal Service than of an affirmative decision by the Board.

Lack of communication

The Postal Service has skimped on providing details of its plans even to its own Board of Governors.

The Board of Governors in turn violated the Sunshine Act by receiving a briefing about the Postal Service plan at a meeting and then not reflecting the briefing in minutes of the meeting.

The Postal Service has also not communicated adequately about the plan with the Postal Rate Commission, which has the power to change rates and allow discounts for changing address lists to the 9-digit code—a step by mailers that is vital to the plan's success.

Social impact

The expanded ZIP Codes will enlarge the risk of creditors' combining addresses with census data in order to deny credit and other services to so-called redlined residents.

IV. RECOMMENDATIONS

1. The U.S. Postal Service should halt further implementation of the 9-digit ZIP Code program as currently constituted.

2. Before proceeding further, the Postal Service should first complete an analysis of its plan's economic impact. The Regulatory Review Group, set up under Executive Order 12044, should be asked to review the analysis. Copies of the analysis and the Regulatory Review Group's comments should be provided to the public and appropriate congressional committees.

3. Equally important, the Postal Service should restudy alternatives to its current plan and, in keeping with E.O. 12044, make publicly available a summary of the alternatives reviewed and the reasons that these were accepted or rejected.

4. In particular, the Postal Service should carefully examine the following alternatives:

(a) The purchase of optical scanning equipment and related automation for current, 5-digit ZIP Code mail without expanding to nine digits, coupled with:

- continued promotion of discounts to large, industry mailers for presorting mail to the carrier route, and
- possible incentives for business mailers to print bar codes on courtesy reply mail indicating 5-digit ZIPs alone or in combination with the 2-digit numbers for carrier routes; or

(b) The purchase of new machinery based on continued use of the 5-digit ZIP Codes for residential addresses with:

- a replacement of the current carrier route presort program with a presort program based on 4-digit codes for sectors and segments, originally planned for the 9-digit ZIP Code system, and
- possible incentives for business mailers to print bar codes on courtesy reply mail indicating 9-digit ZIP Codes.*

5. After this analysis, if the Postal Service should conclude that the most cost-effective program for itself and the mailing public would be the purchase of OCR and bar-coding machinery as well as expansion of the ZIP Code to nine digits, it should

(a) develop an implementation plan containing specific milestones designed to ensure among other things the most productivity from the Postal Service's automation before asking mailers to make changes;

(b) completely redesign its marketing strategy to reflect the new implementation plan and to obtain the most in voluntary

*Subsequent to the preparation of this report, the Postal Service published in the Federal Register on November 28, 1980, a draft regulatory analysis that included an estimate of the cost of the expanded ZIP plan and a review of alternatives to the plan. As discussed at footnote 9, the Committee finds the analysis seriously deficient and recommends a major reexamination.

compliance from its main target, the large business mailers, before proceeding with any plans affecting residential mailers;

(c) determine whether the current discount for presorting to the carrier route will discourage early acceptance by larger mailers of 9-digit ZIPs;

(d) postpone any expansion of 9-digit ZIPs to residences until business mailers accept the program sufficiently to make sorting 9-digit mail more economical than sorting 5-digit mail; and

(e) limit the initial capacity of any telephone information service for 9-digit ZIPs to that necessary for calls from businesses, not households.

6. Regardless of the program finally settled on, the Government Operations Committee is concerned that there be no slackening of service for any type of mail—handwritten, letters bearing no ZIP Codes, or letters addressed with 5-digit ZIPs under a 9-digit system. Since the ZIPs are supposed to be voluntary, the Postal Service should take steps to ensure that enough sorting clerks are always on hand at each post office so that non-ZIP mail is sped on its way as quickly as coded mail.

7. Senior postal officials and members of the Postal Service's Board of Governors should personally give early and continuing attention to any further actions or plans concerning ZIP Code expansion.

8. The Postal Service should provide an audit trail of its decisions concerning the expanded ZIP Codes, since no adequate record of such decision making exists.

9. The Board of Governors should take a direct vote on the proposal to expand the ZIP Code before the Postal Service is permitted to take any action designed to assist businesses or the public in converting to a lengthened ZIP Code.

10. In keeping with the requirements of the Government in the Sunshine Act, the Board of Governors should publish as agenda items those matters on which it is to be briefed, and should maintain complete minutes of meetings as set forth in its bylaws.

11. The Postal Service should bring the Postal Rate Commission into the decision making as soon as possible by requesting its advisory opinion under 39 U.S.C. 3661 on a proposal for a major change in service. The Postal Service and the Commission should also start communicating about any new incentive contemplated for mail users. In the pending rate case involving proposed presort discounts and modification of existing discounts, the Commission should demand clarification from the Postal Service of the impact of adopting this package on planned incentives for using 9-digit ZIPs.

12. The Government Operations Committee suggests that those committees having legislative jurisdiction over Title 39 of the United States Code consider the need for an amendment to Section 3661 which would allow the Postal Rate Commission to initiate hearings on its own without first receiving a request from the Postal Service on issues concerning a change in services substantially nationwide. Such legislation would grant the Commission the authority to issue opinions and recommend decisions on such proposed changes.

V. DISCUSSION

A. THE PLAN

1. *Machines and added digits*

The Postal Service's plan to expand ZIP Codes includes two proposals that, although presented as inseparable, can each stand on its own.¹¹ The first proposal is to add automation and machines for sorting mail; the second is to increase the number of ZIP Code areas 500-fold—from 40,000 to 20 million—so that machines both new and old can sort the mail into smaller areas before the letter carrier picks it up.¹²

The new machines, known as optical character readers (OCRs), will read the 9-digit code that has been typed or printed. Then a printer attached to the OCR would print a bar code on the envelope. When the letter arrives at the addressee's local post office, it will go through a Bar Code Reader (BCR), which will direct it to the right carrier.¹³

The first five digits of the 9-digit ZIP will generally remain the same as those in a current delivery area. The additional four numbers will be separated from the first five by a hyphen and will divide the current ZIP Code area into smaller and smaller geographical units. Those represented by the sixth and seventh digits will be known as "sectors"; those represented by the eighth and ninth digits will be known as "segments." Using this scheme, a current delivery unit will be divisible into 10,000 units.¹⁴ Thus the Postal Service will be able to assign special ZIP Codes to one side of a block, to a cul-de-sac or to a floor of a building.¹⁵

2. *Selling the program*

The Postal Service plans to promote its expanded ZIP Codes through such materials as postal brochures, lobby posters, window decals and bumper stickers. It also intends to provide advertising inserts for business and government mailings as well as for such listings as telephone books and Chamber of Commerce directories.¹⁶

To entice large mailers to reprogram for 9-digit ZIPs, the Service plans to ask the Postal Rate Commission to approve a discount rate for large mailings bearing the new codes.¹⁷ The Service has compiled computer tapes that contain all ZIP Code addresses and which large-volume mailers will be able to borrow on request. When these tapes

¹¹ Proposal to U.S. Postal Service Board of Governors—Automated System for Expanded ZIP Code Program (November 6, 1980), printed as appendix 12 in Hearings [hereinafter referred to as "Proposal to Board"]. The "Sensitivity Analysis," page 6, for example, states that the United States Postal Service would achieve a 22 percent return on its investment in new automated sorting equipment without any change in the current ZIP Code.

¹² Hearings (Statement of Assistant Postmaster General Michael S. Coughlin).

¹³ *Id.*

¹⁴ U.S. Postal Service, "Highlights of the Expanded Nine-Digit ZIP Code Program" (February 1980), printed as appendix 6.b. in Hearings.

¹⁵ *Id.*

¹⁶ U.S. Postal Service, Expanded ZIP Code Marketing Program FY 81 Marketing Plan", 24 (July 1980) printed as appendix 6.c. in Hearings [hereinafter referred to as "Marketing Plan"].

¹⁷ Remarks of Postmaster General Bolger before National Postal Forum XIV (September, 1980), printed as appendix 6.a. in Hearings.

are ready in February 1981, they will represent the first step that mail users will take to use the new ZIPs.¹⁸

During late 1981, the Service intends to send post cards to residents telling them what their new ZIP Code is. According to a postal spokesman, this advisement will be "one of the largest direct mail efforts ever made."¹⁹

As its chief goal for the marketing plan, the Postal Service intends "to maximize usage of the expanded ZIP Code in all letter size mail."²⁰ The Service expects that half of such mail will bear the expanded ZIP Codes by 1982 and 90 percent by 1986. Upon these expectations depend the expanded ZIP Code's predicted benefits.²¹

3. *Not 1 ZIP Directory but 50*

For those unable to use the computer tapes containing all the ZIP Code addresses, microfiche along with ZIP directories for states and localities will be available.²² This means that someone wanting ZIP numbers around the country might have to consult 50 or more directories. (The Service estimates that, if printed, a single volume for the expanded code would run to 40,000 pages.)²³

Plans are also under way to develop a nationwide telephone number at which computer operators would provide ZIP numbers. According to the plans, the operators will be able initially to handle 100,000 calls daily beginning June 1981. These plans, however, are not far along; the competitive procurement that they involve was published as required in *Commerce Business Daily* only two months ago.²⁴

4. *Limited package of mail volume to be aided*

(a) *Only certain classes of mail targeted*

The extent to which the Postal Service can benefit from expanded ZIP Codes and the machines they involve depends highly on how much mail the OCRs are capable of sorting. Postal officials told the subcommittee that OCRs could sort all first and third-class mail that was letter size. These classes account for about 85 percent of all mail. For example, during Fiscal Year 1979, the Postal Service handled about 100 billion pieces of mail, of which 58 billion were first class and 27.5 billion, third class. However, only 35 percent of the third-class mail was of the right size to be handled by the machinery, and of this mail, the OCRs could have read only two-thirds of it.²⁵ The portion of first-class mail that the OCRs could process is less clear.

(b) *Machines can't read handwriting*

What is clear is that 11 percent of first-class mail—or about 6 billion pieces—does not fit into the machinery. Another 14 percent is

¹⁸ Hearings (Statement of Assistant Postmaster General Michael S. Coughlin).

¹⁹ *Id.*

²⁰ Marketing Plan at 6.

²¹ Proposal to Board at 3.

²² Hearings (Statement of Assistant Postmaster General Michael S. Coughlin).

²³ *Id.*

²⁴ Issue No. PSA-7660, *Commerce Business Daily*, 14 (September 8, 1980).

²⁵ Based on information contained in "Additional Postal Service Answers" received October 24, 1980, printed as appendix 1.c. in Hearings [hereinafter referred to as "October 24 answers"].

handwritten, and the OCRs cannot read handwriting.²⁶ An additional 11.5 percent of first-class mail is pre-sorted according to the five-digit codes, and this portion may increase if the Postal Rate Commission approves a discount for pre-sorting this kind of mail into not just delivery areas but specific carrier routes. Moreover, if the Postal Service succeeds in promoting pre-printed bar codes on volume solicitors' courtesy reply mail, another 7 billion pieces of first-class mail could be syphoned from the mailstream suitable for OCR processing.²⁷

(c) Fewer mail sorting clerks

All of this means that, if the Postal Service succeeds in all of its plans, about one-third of the mailstream—6 billion pieces of third-class mail and 30 billion pieces of first-class—would be processed differently. The remaining two-thirds would probably be processed as it is now and would raise a question of whether the Postal Service could save 15,600 work years by sorting clerks, as it had hoped under the plan.²⁸

The Postal Service currently employs 164,000 sorting clerks.²⁹ It takes roughly six months to train new clerks, and at considerable expense.³⁰ The clerks have memorized the route assignment in their particular postal area and are able to look at an address on an envelope and consign it to its correct route bin. The whole point of the 9-digit ZIP is to collapse the number of sorting clerks needed and to replace their memory with machine readers.

A minimum number of clerks will be needed to manually sort mail that is oversize, handwritten, or without nine ZIP numbers, and in times when the machinery is not working.

Some have expressed concern that handwritten mail might actually be delivered slower than now if too many clerks are let go or reassigned. In medium-size post offices in particular there is worry that mail that cannot go through the machinery will sit in bins—with clerks on vacation or sick leave—until someone is available to sort it.

Given the high investment cost of the new ZIPs, the return will be low—perhaps much lower than the Postal Service has estimated—if few positions are eliminated because of the need to maintain service levels.

5. Bad timing

In the spring of 1981, the Postal Service expects to raise the price of first-class postage stamps to either 18 or 20 cents, following approval by the Postal Rate Commission.³¹ At the same time, the Service says it plans to notify residential mailers³² that they will have an additional complication in their lives—the revision of home address books to include an additional four digits in the addresses of all their friends,

²⁶ Interview by the staff of the Subcommittee on Government Information and Individual Rights with William Johnstone of the U.S. Postal Service (November 21, 1980). Postmaster General Bolger, in testimony before the Senate Subcommittee on Energy, Nuclear Proliferation, and Federal Services on November 25, 1980, said that in tests the OCRs read 13 percent of handwritten mail.

²⁷ October 24 answers.

²⁸ *Id.*

²⁹ Interview by the staff of the Subcommittee on Government Information and Individual Rights with Warren Denise of the U.S. Postal Service (November 21, 1980).

³⁰ Hearings (Statement of Assistant Postmaster General Michael S. Coughlin).

³¹ U.S. Postal Service, "General Release No. 24" (April 21, 1980), printed as appendix 8 in Hearings.

³² Hearings (Statement of Assistant Postmaster General Michael S. Coughlin).

cross-town relatives, mortgage firms, gas companies, and catalogue houses. Public reaction to the Postal Service is at a low point, and the committee seriously questions whether the chances of public acceptance of the expanded ZIP Code will be enhanced by hitting the public twice over the head in the same season.

B. COST TO THE POSTAL SERVICE

1. Start-up

The Postal Service estimates that acquiring and installing machines to expand the ZIP Codes will cost about \$900 million. The figure includes about \$500 million for 561 OCRs, \$370 million for 783 BCRs, and other expenses such as for adjusting current machinery. The two phases for deploying the equipment, according to the Postal Service, are 1981-3 and 1983-7.³³

Inflation will likely raise the \$900 estimate for machinery. The figure may increase further because, as of mid-November, the Postal Service had still not entered into a formal agreement with prospective equipment manufacturers, leaving cost estimates of OCRs to speculation.³⁴

2. Productivity gains

The ZIP Code expansion plan addresses the needs of an extremely labor-intensive Postal Service to increase productivity substantially even if rates are to be held down and service is to be maintained. As Postmaster General Bolger wrote Representative James M. Hanley, Chairman of the House Post Office and Civil Service Committee:

A firm part of our planning to achieve our productivity increase goals involves implementation of the 9-digit ZIP Code starting in early 1981 and acquiring the automated equipment to process mail bearing this ZIP Code.³⁵

Mr. Bolger told Mr. Hanley that through automation, the Postal Service planned to reduce its labor by up to 60,000 workyears by the end of Fiscal Year 1986. A month later, however, postal officials told the U.S. Postal Service Board of Governors that the labor reduction from 1982 to 1986 would be only about 15,600 workyears.³⁶

This variance in estimates highlights a difficulty in generally assessing Postal Service claims about the cost-benefits of expanding the ZIP Codes. One postal official explained:

This is a very complex issue. The 15,600 figure is a conservative figure given to the Board. It relates to the gains from just OCRs. It could be 20,000 workyears. The 60,000 figure given to Representative Hanley is based on OCRs and other improvements.³⁷

³³ Bolger letter, Sept. 29, 1980.

³⁴ Information supplied to Senator Durenberger by the U.S. Postal Service in response to questions raised at the November 25, 1980, Senate subcommittee hearings, indicates that the cost of individual OCRs is likely to be at least \$650,000 during Phase I and \$865,000 in Phase II. Preliminary cost estimates from OCR manufacturers were also provided, as follows: (Thousands) ELSAG, \$940 per unit; Toshiba, \$580 per unit; Telefunken, \$650 per unit; Nippon Electric, \$425 per unit; and Bell (No quote).

³⁵ Letter from Postmaster Bolger to Representative James M. Hanley, Chairman, Committee on Post Office and Civil Service (Oct. 2, 1980), printed as appendix 10 in Hearings, Proposal to Board at 15.

³⁷ Interview by staff of the Subcommittee on Government Information and Individual Rights with Paul Van Coverton of the U.S. Postal Service (Nov. 18, 1980).

3. *Business mailers asked to invest up front while Postal Service waits and sees*

The actual deployment of new equipment will lag somewhat behind the promotion of the expanded ZIP. The equipment will be installed in two phases beginning in July 1981 in order, according to the Postal Service, to minimize its own risks and to acquire equipment as usage of the expanded ZIP Code requires.³⁸ A recent Postal Service press release went so far as to say that the second phase of deploying equipment will take place only "if justified by the experience gained in phase one."³⁹ Moreover, mail users are being pressured to take the initial risk by investing substantial sums to convert mailing lists to the expanded ZIP Code while the Postal Service hedges on its investment in equipment until "the experience gained in phase one" is known.

C. COST TO MAILERS

1. *Twenty-one requirements for mailers*

In order for OCRs to be able to read mail, the Postal Service has outlined the following specifications:⁴⁰

1. The entire address should be located within an imaginary rectangle on the front of the mailpiece formed by the following boundaries:

- (1) 1 inch from the left edge.
- (2) 1 inch from the right edge.
- (3) $5\frac{1}{4}$ inch from the bottom edge.
- (4) 3 inches from the bottom edge.

2. No extraneous data shall appear on the mailpiece below the top line of the address block.

3. Do not use punctuation in the address. The address should be blocked and legible.

4. Address Formats:

Top line—Name of Recipient

Next—Information line/Attention/Account Number

Line above last—Delivery Address

Last line—Post Office, State, and ZIP Code

5. Use unit, apartment, mail receptacle, office, or suite number in the address. Place that information at the end of the delivery address line.

6. The preferred location for the ZIP Code is on the Post Office, State, and ZIP Code line; however, when this is not possible, the ZIP Code may be placed on the line immediately below the preferred location and blocked to the left. Standard two-letter state abbreviations should be used.

7. Mail addressed to a foreign country should have that country's name placed, by itself, as the last line of the address block.

8. Inserts must be designed to fit window envelopes so that the complete address block is always visible. No computer punch holes should be in the address area on the inserts.

9. There should be a minimum of $\frac{1}{4}$ inch clearance between the window and all four edges of the address throughout an insert's full movement inside an envelope.

³⁸ Proposal to Board at 4.

³⁹ U.S. Postal Service, "General Release No. 55" (Nov. 7, 1980), printed as appendix 13 in Hearings.

⁴⁰ U.S. Postal Service, "Addressing for Optical Character Recognition" (September 1980), printed as appendix 6.c. in Hearings.

10. Italic, artistic, cyrillic, and script-like fonts cannot be read by the OCR. Characters must not touch or overlap within a word, for any selected fonts.

11. The use of upper case characters is preferred.

12. The character pitch must be in the range of 7 to 12 characters per inch.

13. The character height must be within the range of .08 inch to .20 inch.

14. The space between words should be 1 to 2 character spaces; however, the space between the last character of the state name or abbreviation and first digit of the ZIP Code should be 2 to 5 character spaces.

15. The space between lines of address should be no less than .040 inch (1 millimeter). That is the vertical distance from the bottom most point of either an upper or lower case character to the highest point reached by the tallest character in the line below.

16. The character height to width ratio should be from 1.1:1 up to 1.7:1.

17. Maximum character and line skew relative to the bottom edge of the mailpiece is plus or minus 5 degrees.

18. Maximum address lines per inch is 8 but 6 is preferred.

19. Plain envelope material should have an opacity of 86 percent or greater.

20. Black ink on a white background is preferred, but an ink color may be used which provides a Print Contrast Signal of at least 50 percent measured at a wavelength of 650 nanometers. Do not use reverse color printing.

21. No prompting information such as Tic marks, underlines, the words "city", "state", and "ZIP Code" should appear in the address block unless the print contrast signal is less than 0.20 when measured at a wavelength of 650 nanometers.

2. Converting mailing lists

The concern voiced most frequently by those who commented on the Posta Service notice about the expanded ZIP Codes was that converting to nine digits would be costly and complex.

The Citizens Committee on Paperwork Reduction⁴¹ said that:

Changes in the ZIP Code would mean many expensive changes for some organizations. For instance, many small businesses use mechanical equipment to imprint their mailing addresses. To add five units (a hyphen and four digits) to the addresses would mean that a member of the office staff would have to:

- (1) take the plate out of the machine's store,
- (2) look up the new ZIP Code,
- (3) manually imprint the new code,
- (4) replace the plate.

We estimate that a small firm probably pays office personnel, including benefits, \$6 per hour, or about 10 cents a minute. To do the above would probably take 3 or 4 minutes, or 30 to 40 cents in time . . . if the plate had room for the additional five units. With a list of 1000 names, which is not an

⁴¹ Letter from John M. Cross, Executive Vice President, Citizens Committee on Paperwork Reduction to the U.S. Postal Service (July 1, 1980), printed as appendix 3 in hearings.

unreasonable number, this would mean \$300 to \$400 in labor alone. If that number is multiplied by 100,000 businesses, with mailing lists that size, the costs would be \$40,000,000 for non-productive labor.

Organizations which utilize word processing systems to print labels or envelopes store their addresses on diskettes or magnetic cards. A spot check shows that the addition of the five new units to the address, not including the time spent locating the new ZIP Codes in the directories, would cost approximately 10 cents per change. For an organization with 5000 names on file, which is not a large number, this would mean a cost of \$500 for the change. Again, this is not productive time and produces no revenue except for the word processing firm. A conservative estimate would be that 50,000 firms would have such a need, or a national cost of \$25,000,000.

For organizations with bulk mailing capability, where the Postal Service provides the tapes, the costs would be low on a unit basis. But, even conservatively, the effects on small organizations will cost well over \$60,000,000.

Numerous witnesses before the subcommittee complained of their potential cost of converting to the 9-digit ZIP Code. Mr. Geiger of the Farmers' Almanac predicted that it would cost him between \$35,000 and \$50,000.⁴² Joyce Greenberg of the Greenberg Smoked Turkey Company in Tyler, Texas, said that converting would cost between \$5,000 and \$6,000 to change her mail-order list of 30,000 names.⁴³ The National Association of Evangelicals expected a cost of between \$8,000 and \$10,000;⁴⁴ the Georgia Institute of Technology expected a cost of about \$30,000;⁴⁵ Doubleday & Co. publishers, about \$500,000;⁴⁶ and United Services Automobile Association, a San Antonio based insurer, submitted a statement for the record outlining its conversion costs as being about \$300,000.⁴⁷

A member of the National Federation of Independent Businesses advised the subcommittee that it would cost his firm, which provides mailing labels to businesses, about \$14,000 to revise address plates. This figure was based on an estimate of 20 cents apiece to change 70,000 plates. Since his business grossed only \$80,000 during last fiscal year, this expense would be critical. While the owner acknowledged that he would attempt to pass some of this cost along to his customers, he was concerned that it would make his firm less competitive with larger addressing services. Small businesses less equipped than larger competitors to absorb the costs of conversion might face the same problem.

⁴² Hearings (Statement of Ray Geiger, Editor, Farmers Almanac, Lewiston, Maine).

⁴³ Hearings (Statement of Joyce Greenberg, Greenberg Smoked Turkeys, Tyler, Texas).

⁴⁴ Hearings (Statement of Forest D. Montgomery, Counsel, Office of Public Affairs, National Association of Evangelicals).

⁴⁵ Hearings (Statement of Roger Wehrle, Director of Auxiliary Enterprises, Georgia Institute of Technology, testifying on behalf of the National Association of College and University Business Officers, the American Council on Education, and the Council for the Advancement and Support of Education).

⁴⁶ Hearings (Statement of Jon Mulford, Manager, Postal and Regulatory Affairs, Doubleday and Company, testifying on behalf of the Association of American Publishers, in response to questioning by Congressman Preyer).

⁴⁷ Statement of United States Automobile Association, printed as appendix 4.b. in to Hearings.

3. *The cost to governmental bodies*

A spokesman for the General Services Administration testified before the subcommittee that "significant increased costs for labor and equipment would occur if Federal agencies were required to use the 9-digit ZIP Code."⁴⁸ Although he also stated that significant benefits might also result, he said that GSA did not have sufficient information to take a position on the cost-effectiveness of the proposal. However, he cited an informal survey conducted by the National Archives and Records Service which indicated that reprogramming alone would cost the Department of the Army \$1.2 million and the Department of the Air Force \$249,000. He said further that GSA plans to ask the major mail-using agencies to prepare detailed cost estimates.⁴⁹

The Postal Service has collected no information regarding conversion costs for State and local governments. However, the National Association for State Information Systems, working with the National Governors Association, provided the subcommittee staff with some cost projections for State governments. These projections indicated that it would cost a State of average population at least \$560,000 to convert its tax, motor vehicle and drivers license files. Officials with these groups advised the subcommittee that the cost to county and municipal governments would also be substantial.⁵⁰

4. *Regulatory impact statement not performed*

Executive Order 12044 requires, among other things, that if a Federal regulation will significantly increase costs for individual industries or levels of government, an agency will write a regulatory analysis. This impact statement is supposed to describe major alternatives to dealing with the problem in question and detailed reasons for picking one alternative over the others. Furthermore, the agency shall explain in its public notice of the proposed regulation its method of selection and prepare a final regulatory analysis when the final regulation is published.

However, the Postal Service complies only voluntarily with the regulatory reform provision of E.O. 12044. It takes the position that its regulations do not have major economic consequences.

The Office of Management and Budget, which is responsible for ensuring compliance with the Order, wrote the subcommittee that:

The Postal Service, because it is not an Executive Agency under the Title 5⁵¹ definition, is not formally subject to Executive Order 12044 requirements.

The Postal Service did choose to comply voluntarily "to the extent it is appropriate to do so" and, in accordance with the Order, the Service developed and published a "Report on Implementation of Executive Order 12044, Improving Government Regulations."

By letter dated May 2, 1979, the Acting Deputy General Counsel of USPS reported to OMB that "... the Service

⁴⁸ Hearings (Statement of Gerry Whiting, Acting Director, Information Systems Division, General Services Administration).

⁴⁹ Id.

⁵⁰ Interview by the staff of the Subcommittee on Government Information and Individual Rights with John Lagomarsino, National Governors Association, and Carl Vorlander, National Association for State Information Systems, September 30, 1980.

⁵¹ Executive Order No. 12044, 3 C.F.R. 152 (1978).

has attempted to conform with the spirit and goals of the Order in developing its regulations since the Order was issued." The same letter notes, however, that the Service did not intend to perform regulatory analyses because it "... does not generally issue significant regulations expected to have major economic consequences for the general economy, individual industries, geographic regions, or levels of government."⁵²

When asked about the regulatory analysis at the subcommittee hearing, a postal spokesman answered that the Service would provide an inflationary impact statement by year's end. However, the Postal Service appears to have no intention of providing an assessment of the expanded ZIP Code's potential cost to mail users since it has already sought its Board of Governors' approval for the plan without addressing this cost question.⁵³

Considering the many small business mailers as well as individual church and university mailers, not to mention the large volume mailers such as insurance companies, publishers, retailers, public utilities and various government agencies that will have to convert mailing lists to 9-digit ZIP Codes, the plan's cost will run into the hundreds of millions of dollars nationwide. E.O. 12044 requires regulatory analyses for all regulations that will have an annual effect on the economy of \$100 million or more.

Neither has the Postal Service considered alternatives to expanding the ZIP Codes, as required in the Executive Order, nor has it published a final analysis, which should list the public comments on the public notice of the proposed regulation.⁵⁴

D. FREEDOM OF CHOICE?

In an effort to allay the concerns of mailers and the general public over the cost of adopting the expanded ZIP Codes, the Postal Service is quick to note that, as with the 5-digit ZIPs, use of the 9-digit ZIPs will be voluntary.⁵⁵ Others, however, are not so sure.

For example, Joyce Greenberg of the Greenberg Smoked Turkey Company in Tyler, Texas, said before the subcommittee that the 5-digit ZIPs are voluntary only "if you do not care when you get [a] piece of mail."⁵⁶ She said that as a business mailer, she could not afford to omit the 9-digit code since it had been her experience that mail without a ZIP Code was delayed several days or more and that such delays were costly to her business.⁵⁷

A witness who represents the non-profit National Association of Evangelicals was concerned about the part of the Postal Service's

⁵² Letter from Mark W. Gordon, Acting Assistant Director, Office of Management and Budget to Representative Richardson Preyer (Sept. 16, 1980), printed in Hearings.

⁵³ Notice of Proposed Rulemaking, *supra* note 9. Although the Postal Service included a "draft regulatory analysis" in its notice of proposed rulemaking, this information was not available to the Board on November 6, 1980, when the Board first considered the ZIP Code expansion plan.

⁵⁴ *Id.*

⁵⁵ Hearings (Statement of Assistant Postmaster General Michael S. Coughlin).

⁵⁶ Hearings (Statement of Joyce Greenberg).

⁵⁷ *Id.*

notice in the Federal Register which stated that "use of the expanded ZIP Code may be required in the future in some or all of that type of mail [such as his] which currently must bear the 5-digit ZIP Code."⁵⁸ Forest Montgomery, the Association's Counsel, also said that "the vast bulk of religious non-profit mail is in the second and third class categories" and that his organization and its affiliates were "plainly faced with the prospect of being compelled to change ZIP Codes on (its) mailing list."⁵⁹

The concern of mailers that in fact, the use of the ZIP Code—be it five or nine digits—is mandatory is well taken. The Postal Service *Mailers Guide* advises that:

When you fail to use a ZIP Code, your letter is sorted to a special bin . . . As a result, your letter may miss an important dispatch.⁶⁰

E. EXISTING PRESORT PROGRAMS

The Postal Service reduces postage for mailers who presort mail. At present, the Service has two presort programs for mailers. One for first-class gives a discount rate for qualified mailers who sort their mail to the third or fifth digit of the ZIP Code. Mailers of third-class mail may obtain discount rates if they sort their mail to the carrier route within each ZIP Code area. Carrier routes have their own 2-digit codes.

Postmaster General Bolger, at the National Postal Forum on September 9, 1980, announced that the Postal Service would continue the first- and third-class presort programs. However, some mailers continue to worry about how the 9-digit ZIP Codes will affect these programs. A spokesman for Doubleday & Co. publishers testified before the subcommittee that:

The Postal Service has said that the new 9-digit ZIP Code will not replace the existing 2-digit carrier route, but, for instance, will the 2-digit carrier route number eventually be made obsolete by the nine digits? Will both systems operate in parallel indefinitely? Must mailers leave room in their computers for eleven digits for both separate systems?⁶¹

Other questions about presorting that have arisen are:

Why should the Postal Service give a discount for presorting if it has machines that sort more efficiently?

Will discounts for presorting to the third and fifth digits be worth it to the Postal Service after the new machinery is in place?

The Postal Service recognizes a conflict between growth of presorting and potential gains from the expanded ZIP Codes: that is, the more mail that is presorted, the less mail there will be to feed through the entire new and expensive automated equipment.

One postal spokesman said flatly that the expanded ZIPs would not harm presort programs for first-class or carrier routes. "We

⁵⁸ Hearings (Statement of Forest Montgomery).

⁵⁹ Id.

⁶⁰ U.S. Postal Service, *Mailers Guide*, 36 (Pub. No. 19) (July 1980).

⁶¹ Hearings (Statement of Jon Mulford).

guarantee that there will be sufficient time for mailers to recover their investments in these programs," he said.⁶²

Does this mean that once the investment is recovered, the Postal Service will halt the mailers' discount?

Another postal official testified that:

... over the long term, the continued utility of the presort programs will be determined by the mailers as they choose among the available services, including 9-digit coding, according to their own needs.⁶³

Should mailers using the presort programs add the 9-digit code to their files in order to leave their options open? Should they expand their computer fields to accommodate both systems? Will the discount rate for 9-digit coding be greater than that for presorting to the carrier route? Will it be added to presort rates?

These are just a few of the questions that mailers are asking about how the expanded ZIPs will affect presorting. The president of Mailing Data Services, Inc., of Los Angeles, one of the nation's largest mailing service bureaus, expressed his concerns as follows:

The burden of the industry to institute two major programs over a two to three year time span is difficult to bear at best. The presort system now in use extensively for carrier routing, which has been very successful, followed by the nine-digit system has tended to confuse the user.

We are confused because the experience gained in presort has been virtually ignored and a new set of problems have been interjected into the new system. The logical sequence of events, in my opinion, should have been to perfect the presort and use that as the basis for the nine-digit since the two programs tend to complement each other. This, of course, would have meant a delay of nine-digit implementation, but would have probably made implementation much more palatable and less costly to the Postal Service and the user.⁶⁴

Another reason that mailers are inclined not to reprogram their files to 9-digit ZIPs any time soon is that they are awaiting the outcome of a case that the Postal Service brought before the Postal Rate Commission and which requests, among other things, a discount rate for presorting first-class mail to the carrier route. If the Commission approves the discount, many large mailers such as public utilities, telephone companies and some large retailers will probably begin presorting to the carrier route. Since in all likelihood, mailers, qualifying for this discount would save money by presorting rather than reprogramming their mailing lists to expanded ZIPs, they have no reason at present to convert to nine digits.

Postal Service posturing on this matter is at best confusing and may finally prove self-defeating.

⁶² Gordon Morrison, Assistant Postmaster General for Customer Relations, 3 *ZIP Magazine*, 32 (September 1980).

⁶³ Earnings (Statement of Assistant Postmaster General Michael S. Coughlin).

⁶⁴ Interview by the staff of the Subcommittee on Government Information and Individual Rights with William Atherton, President, Mailing Data Service, Inc., Los Angeles, California (November 6, 1980).

F. DISCOUNT FOR LARGE MAILERS

On September 9, 1980, more than three months after the Federal Register notice that the expanded ZIPs would go into effect during early 1981, mailers attending the National Postal Forum heard from Postmaster General Bolger that those adopting the 9-digit ZIPs would be offered discount incentives. However, the Postal Rate Commission, which must approve changes in mail classifications, has not received any such proposal.

Concerning incentives, one witness told the subcommittee:

Whether companies tackle the conversion to nine digits themselves or with the help from services bureaus, or at all, will depend largely on the financial incentive offered in the form of a postal rate discount. So far, the Postal Service has not said how much of a discount would be offered, although the discount represents the mailer's investment in the nine-digit effort. In any event, the Postal Service until now has been charging ahead with the project, without disclosing answers to the key financial questions. This should not be.⁶⁵

Other witnesses worried about the Postal Service's failure to provide more information about discount incentives. A spokesman for several associations representing the educational community questioned the lack of information about the kind and extent of the incentives to be offered. He also wondered if discounts would be sufficient to cover costs of conversion and equipment.⁶⁶

Following the subcommittee hearing, Chairman Preyer wrote a letter to the Postmaster General asking additional questions about the proposed discount incentives.⁶⁷ Mr. Bolger answered that he could not say what discounts the mailers could expect. He explained that:

The Postal Service intends to file comprehensive proposals with the independent Postal Rate Commission at an appropriate time next year. Under the Postal Reorganization Act, proposals must be supported and accompanied by appropriate evidence concerning the cost, volume, and revenue impacts of the changes proposed. These factors are heavily interdependent. The development of the requisite information for the nine-digit ZIP Code Program is, necessarily, far from complete. For example, until mailers are able to obtain and digest a substantial body of information concerning the nine-digit ZIP Code Program, it will be difficult to measure their reactions to potential discount levels and eligibility requirements.

Likewise, the Postal Service will be unable to identify rates of variables to test until it determines what levels of costs and savings are associated with new methods and equipment.

We cannot reasonably speculate on the amount of discount prior to assembling appropriate information that will permit us to comply with the rate-classification criteria of the Postal

⁶⁵ Hearings (Statement of Jon Mulford).

⁶⁶ Hearings (Statement of Roger Wehrle).

⁶⁷ Letter from Representative Richardson Preyer to Postmaster General Bolger (September 19, 1980), printed as appendix 1.b. in Hearings.

Reorganization Act. Reasonably the amount of this discount, like other discounts which acknowledge advance preparation efforts, will reflect cost savings and market considerations in such way as to benefit all mail users.⁶⁸

Thus the Postal Service is faced with a conundrum. It cannot make its case to the Postal Rate Commission for discount incentives for large mailers until it has some idea of how many mailers will use the 9-digit coding. Mailers, on the other hand, are reluctant to expand their systems to accommodate the 9 digits until they know what the discount incentives will be.

G. TECHNICAL PROBLEMS NOT RESOLVED

1. *Performance of optical character readers*

(a) *Error rate*

The Postal Service considers the optical character readers (OCRs) as the lynchpin of the entire 9-digit ZIP project. These machines are to be used with Bar Code Readers (BCRs) to sort mail down to the carrier route. Yet to date, the Service has not released to the public any information about how reliable and sensitive these machines are. Even the Board of Governors has received only limited information on how the machines perform. Postal officials noted in briefing materials that the so-called operational availability, or "up" time, of the OCRs tested, ranged from 93 to 99 percent.⁶⁹ At another point, the briefing materials mentioned that the OCRs' ability to read mail ranged from 60 to 80 percent,⁷⁰ depending upon mail type. However, without additional information, it is unclear whether these so-called accept rates, or OCR recognition rates, are based on live, mail tests that included handwritten mail. If such mail were not included in the test, the OCR recognition rate for mainstream mix of mail could be substantially lower since handwritten addresses are on 14 percent of all first-class mail⁷¹ and OCRs cannot read handwriting.

(b) *Postal Service Mum on Details*

The Postal Service has refused to provide the subcommittee with any detailed evaluation of the OCRs that it will buy. The Service refuses to answer such specifics as the range of machine sorting error it finds acceptable, and how efficient the OCRs will be if some or all of the Postal Service's twenty-one addressing requirements for mailers are not fully followed.

2. *Conversion tapes*

As noted earlier, the Postal Service is preparing 10,000 sets of conversion taps that it will share with companies on a first come, first served basis, to convert firms' existing computerized customer lists. The Postal Service has had problems with these so-called conversion tapes—also known as coding files. The coding files are lists of addresses that fall within each nine-digit ZIP Code area. The lists developed by the Service for five cities—Hartford, Conn.; Harrisburg, Pa.; Baton

⁶⁸ Bolger letter, September 29, 1980.

⁶⁹ Proposal to Board at 6.

⁷⁰ Id. at 3.

⁷¹ October 24 answers.

Rouge, La.; Lincoln, Neb., and San Jose, Calif.—were recently evaluated by a number of large mailers and list processors, among which was Mailing Data Services of Los Angeles. The firm's computer specialist primarily responsible for evaluating these lists, which are maintained on computer tapes, said that although the five cities were among the easiest to code, the files contained a high number of coding errors.⁷²

3. *Multiplication of errors*

Although the Postal Service has planned to notify mailers only once of their new 9-digit ZIP Codes next year, it has apparently given no thought to the problem of finding a way later to notify tenants, homeowners and companies that move.

Roughly 18 million Americans move each year. At present, a new resident can ask a neighbor across the street what the local ZIP Code is. But with the expanded ZIPs, the neighbor across the street, or at the end of the cul de sac, or even in the next apartment house could easily have a different ZIP Code. A new resident will likely have no way of knowing this and will quite possibly send out a wrong ZIP Code on change of address forms for magazine subscriptions, insurance companies, banks, department stores and friends. Thus an innocent mistake over the back fence about the correct ZIP number will multiply and will be hard to purge once the magazines and other mailing lists are changed and sold to others soliciting business. The resulting confusion and misdirection by automated equipment could be substantial.

H. PRIVACY AND REDLINING

ZIP Codes are now matched with census data, political party registration and other information for all kinds of marketing purposes. For example, someone wishing to sell swimming pools would solicit by mail only from high income ZIP Code areas. Similarly, political parties seeking campaign contributions would target those ZIP areas which predominantly support their party.

The division of ZIP areas into smaller geographical areas would allow for an even greater selectivity in marketing. Since the 9-digit code would frequently vary from block to block, it would be possible for marketing analysts to target residents of those blocks which were thought to be the most responsive.

Concerning the possible social implications of the 9-digit ZIP Code, a spokesman for the Federal Trade Commission testified before the subcommittee that many creditors have used the present 5-digit ZIP Code in their scoring to determine credit worthiness. Lewis Goldfarb, the FTC's Assistant Director for Credit Practices, said that living in certain ZIP Code areas often made it more difficult for residents to get credit and that the use of ZIP Code in credit scoring harmed minority races particularly. He testified:

Our concern with regard to the nine-digit ZIP Code, assuming ZIP Code continues to be used by creditors in their credit evaluation systems, is that the use of nine digits will allow an

⁷² Interview by staff of Subcommittee on Government Information and Individual Rights with Eugene Knabenbauer, Vice President, Mailing Data Services, Los Angeles, California (October 20, 1980) [hereinafter cited as Knabenbauer interview].

even more refined and smaller geographic unit to be formed and will thereby probably result in a more homogeneous grouping. So you will find ZIP Code categories that have an even greater proportion of blacks, let's say. So, if creditors were to continue using ZIP Code, particularly the nine-digit code, there is an even greater likelihood that the use of ZIP code in credit scoring systems would have a racially discriminatory impact and therefore would be unlawful under the Equal Opportunity Act.⁷³

Although the use of ZIP Codes in credit rating is not illegal per se, if it has the effect of being racially discriminatory it violates the Equal Credit Opportunity Act. Creditors, therefore, should be alert to the greater potential for misuse of the 9-digit code if they continue to use ZIPs in their scoring systems.

Another witness before the subcommittee testified that matching the 9-digit ZIP Code with census data would produce more accurate demographic information, which in turn would provide major benefits to "the statistical systems of state, local and federal governments and to the public users of these systems in the private, institutional and political sectors."⁷⁴

I. ALTERNATIVES

1. *What would new machine and expanded ZIPs have to do with each other?*

The Postal Service would expand the ZIP Codes by using optical character readers to scan as well as bar-code mail, and by dividing the country into 20 million ZIP delivery areas. The Service insists that the American public cannot have the one without the other. However, during subcommittee hearings, a question arose as to whether the Postal Service could use OCRs today to handle mail effectively, and the answer was yes. One postal official testified:

We can put this OCR equipment out there today with a 5-digit ZIP Code and get a return on the investment in excess of the 15 percent minimum standard of the Postal Service.⁷⁵

At the same time, postal officials said that machinery known as multi-position letter sorting machines (MPLSMs), currently in use, could be adjusted to handle 9-digit mail.⁷⁶ Some people have been suggested that with proper incentives for mailers to pre-sort, OCRs would not be needed for the 9-digit ZIPs.⁷⁷

2. *Entice large mailers to print bar codes on courtesy reply mail*

Another alternative the Postal Service has failed to fully consider is the offering of incentives to business mailers to imprint special bar coding on courtesy reply mail. Courtesy reply mail accounted for 7

⁷³ Hearings (Statement of Lewis Goldfarb).

⁷⁴ Hearings (Statement of Jonathan E. Robbin, Chairman, Cl-rites Corp., Rosslyn, Va.).

⁷⁵ Hearings (Statement by Assistant Postmaster General Michael S. Coughlin). For a discussion of the Postal Service's outline of options to the present mail processing system contained in it November 28, 1980, notice of proposed rulemaking, see footnote 9 above.

⁷⁶ Interview by staff of Subcommittee on Government Information and Individual Rights with Messrs. Johnstone, Denise and Gennaro, all of the U.S. Postal Service (September 3, 1980).

⁷⁷ Knabenbauer interview.

billion pieces—or 8 percent—of first class mail in 1979. Processing of such bar-coded envelopes could be done using relatively inexpensive bar-code readers instead of OCRs. Many mailers in fact already use bar codes on their reply mail. The bar coding might either be based on the present 5-digit ZIP system alone or in combination with the 2-digit carrier route numbering, or on the planned 9-digit sector and segment numbering.

Another alternative would be for the Postal Service to offer incentives to large mailers to bar-code their mailing lists and print bar codes on outgoing letters. This option would be much more expensive for mailers, however, and would require the conversion of existing lists.

J. MANAGEMENT OF THE ZIP PLAN

1. *Lack of project head*

Management of the ZIP expansion plan is divided among different offices or "islands"⁷⁸ within the Service. Although the Research and Development Group is responsible for the coding scheme, the Engineering and Technical Support Department is responsible for the research and evaluation of the new machines. The Customer Services Department is responsible for marketing the plan. These offices are located in the different branches of the Postal Service. Moreover, there is no overall project coordinator.

2. *Decision memos nonexistent*

In order to understand the Postal Service's plan better, the subcommittee repeatedly asked for copies of all decision memoranda about the ZIP expansion program but was told that no such records existed.

Postmaster General Bolger responded to Chairman Richardson Preyer that:

In our opinion, the Executive Summary of the Task Force Report, dated 8/31/76, represents a "decision package" since it presented conclusions and made specific recommendations to the top staff of the USPS to expand the United States ZIP Code to include the additional four (4) digits and to develop and procure the next generation of mechanization, which included Optical Character Reader (OCR) and Bar Code Reader (BCR) equipment for a complete Read-Code system.⁷⁹

The 1976 Task Force Report on Future Mail Processing Systems contains no indication of what was actually approved, by whom or when. Furthermore, there is still no evidence of planning and decision-making by postal officials during the two years between presentation of the report and Postmaster General Bolger's announcement of the ZIP plan at the 1978 National Postal Forum.

⁷⁸ Assistant Postmaster General James V. Jellison told an editor of ZIP magazine that to alleviate some of the confusion on the part of the mailing industry regarding the proposed ZIP expansion, the "islands"—that is, the different divisions within the Service working on the program—would begin coordinating information to enable the Service to present a "unified picture" of the new system. See, 3 ZIP Magazine 58 (October 1980).

⁷⁹ Bolger letter, Sept. 29, 1980. See U.S. Postal Service, "Task Force Report on Future Mail Processing System," (August 1976), printed as appendix 6.d. in Hearings.

3. *No decision checkpoints*

In any event, there is no evidence that the Postal Service has seriously examined any alternatives to its ZIP expansion plan, which provides for many far-reaching and costly actions to take place at about the same time. The Postal Service and its customers would face fewer risks if the Service proceeded more logically to become more productive.

Illustrative of the Postal Service's failure to employ foresight in its management planning was the recent announcement by Postmaster General Bolger concerning slippage in the target date for deployment of new equipment. Bolger told a Senate subcommittee on November 25, 1980, that deployment of equipment would begin in October 1981. The initial deployment had been set for July 1981. However, no re-scheduling of what are purported to be related implementation actions has been announced by the Postal Service. Without a time-phased plan containing specific milestones, it is impossible to tell what impact this change will have on the overall implementation of the ZIP.

K. POSTAL SERVICE BOARD OF GOVERNORS

1. *Board's role*

As outlined by the Postmaster General,

In the future, there will be at least two formal actions required of the Board in regard to the nine-digit ZIP Code proposal. First, under its Bylaws, the Board must approve any capital investments in excess of five million dollars. Second, likewise under its Bylaws, the Board must approve proposed rate or classification change filings with the Postal Rate Commission, and this would include a proposal to provide reduced postage rates for mail including nine-digit ZIP coding. Additionally, in connection with the latter, the Governors of the Postal Service would have to pass on any recommendation decision from the Postal Rate Commission.⁸⁰

2. *November 6 meeting*

The financial consideration that was much on the minds of the Board of Governors at the meeting November 6, 1980, was the cost and means of financing the new ZIPs.⁸¹ Chairman Wright was particularly concerned about the length of time during which the new ZIPs would cost the Postal Service more than they would save. The Board delayed approving the 9-digit ZIP Code and asked postal officials to present this economic information to the Board at its December meeting.

Much of the information necessary for a rational examination of the plan was not even available to the Board. At its meeting, although it generally endorsed the idea of expanding ZIP Codes, it raised many questions about costs and financing of the plan. However, the Board did not express a similar concern for the mail users or press for information on potential technical problems.⁸²

⁸⁰ Bolger letter, Sent. 29, 1980.

⁸¹ Subcommittee staff memorandum on Nov. 6, 1980 meeting of the Board of Governors.

⁸² Id.

3. December 2 meeting

On December 2, 1980, the Board of Governors authorized \$316 million for new automated mail sorting equipment. According to a spokesman for the Postal Service, the Board did not take action either to approve or disapprove lengthening the ZIP Code to nine digits. While the spokesman said that the Board would consider incentive discount proposals during 1981, he was unsure when or whether the Board would vote directly on a proposal to lengthen the ZIP Code.⁸³

4. Earlier consideration

The subcommittee staff also requested copies of any minutes of meetings of the Board of Governors at which the 9-digit code was discussed, but was informed that none existed.

Following up on this request, Subcommittee Chairman Preyer wrote to Postmaster General Bolger asking what the Board's role was if it was not consulted on such major changes in postal operations. Mr. Bolger replied:

If the Subcommittee staff in fact was told that the nine-digit ZIP Code is nowhere mentioned in the minutes of the Board of Governors, something was "lost in translation". Passing reference to the nine-digit ZIP Code are reflected in the Board minutes in an account of a 1979 report to the Board on the status of programs under the cognizance of the Operations Group at Postal Service Headquarters and in an account of a 1980 approval by the Board of a proposed capital investment project for "EZR retrofit kits" to be installed on multi-position letter sorting machines.

The minutes of the Board of Governors do not contain any discussion of the nine-digit ZIP Code proposal, and the Board has not formally acted on the proposal. The minutes of the Board are generally limited to brief identification of formal agenda items which the Board has discussed, to summaries of the highlights of these discussions, and to short account of formal decisions of the Board. Briefings before the Board which do not involve formal agenda items are generally not reflected in the minutes. Thus, an extensive briefing given to the Board in March of 1980 on the nine-digit ZIP Code was not reflected in the minutes.

Moreover, the Board has been well aware of the nine-digit ZIP Code proposal for at least the last two years. The proposal is described in the Annual Reports of the Postmaster General for fiscal 1978 and fiscal 1979, and in the annual Comprehensive Statement on Postal Operations. Both of these annual series of reports are required by law to be submitted to the Congress. Both are reviewed in detail and approved by the Board (with the approval being reflected in the Board's minutes) before being submitted to the Congress.⁸⁴

⁸³ Interview by subcommittee staff with William Johnstone, a postal official, Dec. 2, 1980.

⁸⁴ Bolger letter, Sept. 29, 1980.

5. Sunshine Act violations

The Postmaster General's statement that an "extensive briefing" on the ZIP expansion was presented to the Board during March 1980 and that the briefing was not reflected in the minutes of the Board because the subject was not listed on the agenda raises questions about how and when decisions are actually made by the Board and about compliance with the Government in the Sunshine Act.

According to Senator Lawton Chiles, one of the principal sponsors of the law:

Informal briefings or discussions are important to the whole decision making process. The information received or discussed at such sessions affect agency decisions in some part. Even if the information doesn't directly relate to a pending matter, if it relates in any way to matters within your jurisdiction it would certainly lay the informational groundwork for later actions.⁸⁵

The absence of any written record of the meeting at which the reported briefing took place leaves the subcommittee without an understanding of what the Board knows about the ZIP proposal or, for that matter, whether the Board may have *de facto* made a decision during the briefing.

Concerning compliance with the Sunshine Act, the American Law Division of the Library of Congress' Congressional Research Service told the subcommittee that:

It appears that the formulation of an agenda does not control the content of the minutes of a meeting because the controlling factor is the actual content of the meeting. According to the Board's own by-laws, minutes are required of any meeting. Therefore, what governs the content of the minutes is not the schedule of items to be discussed, but whether a meeting takes place or not. Any discussion may constitute a meeting as long as a quorum of agency members are present, the deliberations are substantive, and they ultimately determine or result in the disposition of official agency business.⁸⁶

L. ROLE OF THE POSTAL RATE COMMISSION

A key element in the success of the Postal Service plan is discount rates for large volume mailers who would use the 9-digit code. Stephen Gold, the Commission's deputy general counsel, testified before the subcommittee that the Postal Service had not communicated with the Commission about expanding the ZIPs. However, Mr. Gold said that the Commission might become involved with the plan under provisions of the Postal Reorganization Act which deal with mail classification and changes in postal services.⁸⁷

⁸⁵ Hearings on Public Law 94-409 before the Subcommittee on Federal Spending Practices and Open Government of the Senate Committee on Governmental Affairs, 95th Congress, 1st and 2d sessions (1977-78) at 325.

⁸⁶ Memorandum to Subcommittee (Nov. 3, 1980) printed as appendix 11 in Hearings.

⁸⁷ Hearings (Statement of Stephen Gold, Deputy General Counsel to the Postal Rate Commission).

The Commission's jurisdiction over classification would pertain if the ZIP Code were mandatory for any or all classes of mail or if a discount were offered for using 9-digit codes. The Commission's jurisdiction over changes in service, Mr. Gold said, would involve a subjective decision whether the proposal would have a nation-wide impact on services. However, in any event, the jurisdiction over services changes would provide for only an advisory opinion and, at that, only when requested by the Postal Service.⁸⁸

Although Mr. Gold was reluctant to discuss a subject that might come before the Commission, he answered a question from Subcommittee Chairman Preyer about possible discount rates by saying that:

Clearly, if such an incentive were to be offered, that case would clearly come under jurisdiction under 3623 and possibly 3622 of the act, both our classification and rate jurisdiction.⁸⁹

Late last April, the Postal Service filed a major rate case with the Commission, and surprisingly, the submittal contained no mention of the ZIP Code or the related incentives, to which the Service had committed itself.⁹⁰ This silence raised other questions of the Service's thoroughness of planning for the expanded ZIP.

⁸⁸ Id.

⁸⁹ Id.

⁹⁰ U.S. Postal Service "General Release No. 24", (April 21, 1980), printed as appendix 8 in Hearings.